

3/17/09



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COMMISSIONERS
KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

MICHAEL P. KEARNS
INTERIM EXECUTIVE DIRECTOR



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ARIZONA CORPORATION COMMISSION

ORIGINAL

MEMORANDUM

TO: Kristin K. Mayes, Chairman
Gary Pierce
Paul Newman
Sandra D. Kennedy
Bob Stump

Arizona Corporation Commission
DOCKETED

MAR - 5 2009

FROM: Matthew J. Neubert *mjn*
Director of Securities

DATE: March 3, 2009

RE: Proposed Order to Cease and Desist, Order of Restitution, Order for Administrative Penalties and Consent to Same by Respondents Cosas Management Group, L.L.C., Gene Laurell Lines and his spouse Suzanne Lines, Docket No. S-20652A-09-0043

CC: Michael P. Kearns, Interim Executive Director

Please find attached a proposed Order to Cease and Desist, Order of Restitution, Order for Administrative Penalties ("Order") and Consent to Same signed by Cosas Management Group, L.L.C., Gene Laurell Lines (collectively "Respondents") and his spouse Suzanne Lines.

The Order finds that from February 2005 to June 2008, Respondents sold unregistered securities to 14 Arizona residents while not registered as dealers or salesmen, or exempt from registration in violation of A.R.S. §§ 44-1841 & 44-1842 of the Arizona Securities Act. Respondents used investor money to fund real estate loans ("Loans"). The Loans were documented by promissory notes and deeds of trust executed in favor of Respondents.

Presently, there are 4 outstanding Loan investments held by 6 investors. The Order requires Respondents to cease and desist from violating the Securities Act, pay full restitution totaling \$1,380,366 and a \$50,000 administrative penalty. The penalty would be reduced to \$25,000 if Respondents pay full restitution by August 28, 2010.

The Division recommends this Order as appropriate, in the public interest and necessary for the protection of investors.

Originator: Mike Dailey

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES, Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

In the matter of)	DOCKET NO. S-20652A-09-0043
)	
COSAS MANAGEMENT GROUP, L.L.C.,)	
an Arizona limited liability company;)	DECISION NO. _____
)	
GENE LAURELL LINES and SUZANNE)	
LINES, husband and wife,)	ORDER TO CEASE AND DESIST, ORDER
)	OF RESTITUTION, ORDER FOR
Respondents.)	ADMINISTRATIVE PENALTIES AND
)	CONSENT TO SAME BY RESPONDENTS:
)	
)	COSAS MANAGEMENT GROUP, L.L.C.
)	
)	GENE LAURELL LINES and SUZANNE
)	LINES

15 Respondents COSAS MANAGEMENT GROUP, L.L.C., GENE LAURELL LINES and
16 his spouse SUZANNE LINES elect to permanently waive any right to a hearing and appeal under
17 Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act")
18 with respect to this Order To Cease And Desist, Order of Restitution, Order for Administrative
19 Penalties ("Order"). Respondents admit the jurisdiction of the Arizona Corporation Commission
20 ("Commission"); neither admit nor deny the Findings of Fact and Conclusions of Law contained in
21 this Order; and consent to the entry of this Order by the Commission.

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I.

FINDINGS OF FACT

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3 1. Respondent COSAS MANAGEMENT GROUP, L.L.C. ("COSAS") is an Arizona
4 limited liability company. At all times relevant, COSAS maintained a principal place of business
5 in Gilbert, Arizona. According to the records of the Commission, "THE GENE & SUZANNE
6 LINES [revocable] TRUST" ("TRUST") was at all times relevant the managing member of
7 COSAS.

8 2. At all times relevant, respondent GENE LINES ("GL") resided in Arizona, and was
9 a trustee of the TRUST. At all times relevant, GL conducted business through COSAS as its
10 owner, promoter and manager and in his capacity as a trustee of the Trust.

11 3. At all times relevant, respondent SUZANNE LINES resided in Arizona, was GL's
12 spouse and a trustee of the TRUST. SUZANNE LINES is referred to hereafter as "SPOUSE."
13 SPOUSE is joined in this action under A.R.S. § 44-2031(C) solely for the purpose of determining the
14 liability of the marital community.

15 4. At all times relevant, GL was acting for his own benefit and for the benefit or in
16 furtherance of GL and SPOUSE's marital community.

17 5. COSAS and GL are collectively referred to hereafter as "RESPONDENTS" as the
18 context requires. At all times relevant, RESPONDENTS were not registered as securities dealers or
19 salesman.

20 6. From February 2005 to June 2008, RESPONDENTS issued and sold unregistered
21 securities in the form of investment contracts to 14 Arizona residents ("Investments").

22 7. RESPONDENTS represented to investors that they are in the business of issuing
23 real estate loans. RESPONDENTS used Investment money to fund the loans.

24 8. The loans originated by RESPONDENTS were documented with promissory notes
25 and secured by deeds of trust executed in favor of COSAS.

1 9. Loan terms ranged from 3 to 12 months, and charged borrowers interest at the rate
2 13 to 20% per year. RESPONDENTS sometimes extended loans beyond the original due date for
3 an extra fee.

4 10. RESPONDENTS profited from the Investments by charging loan borrowers: (a) a
5 1% origination fee for 6 month loans, or a 2% origination fee for 12 month loans; (b) a \$50.00 fee for
6 RESPONDENTS' inspection of the property securing a loan; and (c) miscellaneous fees including,
7 but not limited to, loan extension and late fees.

8 11. Under the Investments, RESPONDENTS paid investors the interest rates stated on
9 the loan borrowers' notes, most often 18% per year, and the eventual return of their principal
10 investment at the conclusion of the underlying loan.

11 12. RESPONDENTS managed all aspects of the Investments and, without limitation:

- 12 (a) conducted loan underwriting and/or risk evaluation;
 - 13 (b) negotiated the terms and conditions of the Investment associated loans;
 - 14 (c) obtained borrower credit reports and FICO scores;
 - 15 (d) obtained independent real property and collateral appraisals;
 - 16 (e) obtained title insurance;
 - 17 (f) arranged for and participated in escrow closings, including the preparation of
18 escrow instructions;
 - 19 (g) collected monthly payments, and loan payoffs and related fees from the
20 borrowers/note makers;
 - 21 (h) disbursed monthly and Loan Investment payoffs to investors;
 - 22 (i) prepared and provided investors with copies of Loan Investment documents such
23 as deeds of trust and notes; and
 - 24 (j) prepared and provided investors with monthly Loan Investment accountant
25 statements.
- 26

1 RESPONDENTS maintained records of the Investments including loan borrower and investor
2 receipts and disbursements.

3 13. RESPONDENTS' investors had no contact with the loan borrowers. Investors
4 specifically agreed that RESPONDENTS would communicate with the borrowers on their behalf.

5 14. GL caused Investments funds to be deposited into and disbursed from a common
6 bank account owned by COSAS. Such funds included, for instance, principal investment money,
7 monthly borrower payments, investor repayments and title and escrow deposits and disbursements.
8 GL was the signer on the COSAS bank account.

9 15. GL also signed documents associated with the loans on behalf of COSAS as its
10 managing member.

11 16. RESPONDENTS often pooled Investment monies together to fund a single loan.
12 For example, RESPONDENTS' pooled 4 separate investors' Investment money to fund a single
13 loan in the amount of \$1,050,000.

14 17. During the offering period, RESPONDENTS sold Investments totaling: (a)
15 \$2,493,800 in 2005; (b) \$6,233,885.90 in 2006; (c) \$3,893,153.02 in 2007; and (d) \$340,000 in
16 2008.

17 18. From January 1, 2006 to present, RESPONDENTS invested approximately
18 \$4,145,690 of their own funds in the Investments. RESPONDENTS ceased selling the Loan
19 Investments when they discovered the existence of the Division's investigation.

20 19. Presently, there are 4 outstanding Investments held by 6 investors (the "Outstanding
21 Investments"). RESPONDENTS invested \$419,000 of their own money in the Outstanding
22 Investments.

23 20. In Lieu of foreclosure, the loans underlying the 4 Outstanding Investments have been
24 indefinitely extended due to the decline of the real estate market. COSAS holds one second-position
25 lien, and three first-position liens as security for the loans associated with the 4 Outstanding
26 Investments.

21. Considering repayments, the 6 investors are currently owed \$1,380,366 on their Outstanding Investments.

II.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

2. RESPONDENTS offered or sold securities within or from Arizona, within the meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

3. RESPONDENTS violated A.R.S. § 44-1841 by offering or selling securities that were neither registered nor exempt from registration.

4. RESPONDENTS violated A.R.S. § 44-1842 by offering or selling securities while neither registered as dealers or salesmen nor exempt from registration.

5. RESPONDENTS' conduct is grounds for a cease and desist order pursuant to A.R.S. § 44-2032.

6. RESPONDENTS' conduct is grounds for an order of restitution pursuant to A.R.S. § 44-2032.

7. RESPONDENTS' conduct is grounds for administrative penalties under A.R.S. § 44-2036.

8. GL acted for the benefit of GL and SPOUSE's marital community and, pursuant to A.R.S. §§ 25-214 and 25-215, this Order of restitution and administrative penalties is a debt of the community.

III.

ORDER

THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and RESPONDENTS' and SPOUSE's consent to the entry of this Order, attached and incorporated by

1 reference, the Commission finds that the following relief is appropriate, in the public interest, and
2 necessary for the protection of investors:

3 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that RESPONDENTS and any of their
4 agents, employees, successors and assigns, permanently cease and desist from violating the
5 Securities Act.

6 IT IS FURTHER ORDERED that RESPONDENTS and SPOUSE comply with the
7 attached Consent to Entry of Order.

8 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that RESPONDENTS and the
9 marital community of GL and SPOUSE shall, jointly and severally, pay restitution to the
10 Commission in the amount of \$1,380,366. Payment shall be made to the "State of Arizona" to be
11 placed in an interest-bearing account controlled by the Commission. Restitution shall be due no
12 later than 90 days after the date of this Order. Any amount outstanding shall accrue interest at the
13 rate of 10% per annum beginning 90 days after the date of this Order until paid in full. During
14 those 90 days, the Commission, in its sole discretion, may credit the amount of restitution owed by
15 RESPONDENTS and the marital community of GL and SPOUSE with the value of any assets
16 distributed to the investors by RESPONDENTS and the marital community of GL and SPOUSE.
17 RESPONDENTS and the marital community of GL and SPOUSE shall have the sole responsibility
18 to establish the value of the distributed assets to the satisfaction of the Commission.
19 RESPONDENTS and the marital community of GL and SPOUSE shall provide to the Commission
20 all information and documentation to verify that such restitution has been paid, which the
21 Commission in its sole discretion may accept or reject. Such documentation shall include at least a
22 valuation of the asset prepared by an independent licensed or certified appraiser and a notarized
23 acceptance of such asset and valuation by the investor. The Commission shall disburse the funds
24 on a pro-rata basis to investors shown on the records of the Commission. Any restitution funds
25 that the Commission cannot disburse because an investor refuses to accept such payment shall be
26 disbursed on a pro-rata basis to the remaining investors shown on the records of the Commission.

1 Any funds that the Commission determines it is unable to or cannot feasibly disburse shall be
2 transferred to the general fund of the state of Arizona.

3 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that RESPONDENTS and the
4 marital community of GL and RESPONDENT SPOUSE shall, jointly and severally, pay an
5 administrative penalty in the amount of \$50,000. The payment obligations for this administrative
6 penalty shall be subordinate to any restitution obligations ordered herein and shall become
7 immediately due and payable only after restitution has been paid in full or upon Respondents'
8 default with respect to Respondents' restitution obligations. Any amount still outstanding as of
9 August 28, 2010 shall thereafter accrue interest at the rate of 10% per annum until paid in full.
10 Payment shall be made to the "State of Arizona." If the restitution ordered above is paid in full by
11 August 28, 2010, the penalty amount shall automatically be reduced to \$25,000.

12 For purposes of this Order, a bankruptcy filing by RESPONDENT or SPOUSE shall be an
13 act of default. If RESPONDENTS or SPOUSE fail to comply with this Order, any outstanding
14 balance may be deemed in default and shall be immediately due and payable.

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1 IT IS FURTHER ORDERED, that if RESPONDENTS or SPOUSE fail to comply with this
2 order, the Commission may bring further legal proceedings against that RESPONDENT or
3 SPOUSE, including application to the Superior Court for an order of contempt.

4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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8 CHAIRMAN

COMMISSIONER

9
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11 COMMISSIONER

COMMISSIONER

COMMISSIONER

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13 IN WITNESS WHEREOF, I, MICHAEL P. KEARNS,
14 Interim Executive Director of the Arizona Corporation
15 Commission, have hereunto set my hand and caused the
16 official seal of the Commission to be affixed at the
17 Capitol, in the City of Phoenix, this ____ day of March,
18 2009.

19 MICHAEL P. KEARNS
20 INTERIM EXECUTIVE DIRECTOR

21 DISSENT

22
23 DISSENT

24 This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator,
25 voice phone number 602-542-3931, e-mail sbernal@azcc.gov.

26 (MD)

CONSENT TO ENTRY OF ORDER

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2 1. Respondents COSAS MANAGEMENT GROUP, L.L.C., GENE LAURELL
3 LINES ("GL") (collectively "RESPONDENTS" as the context requires) and SUZANNE LINES
4 ("SPOUSE") admit the jurisdiction of the Commission over the subject matter of this proceeding.
5 RESPONDENTS and SPOUSE acknowledge that they have been fully advised of their right to a
6 hearing to present evidence and call witnesses, and they knowingly and voluntarily waive any and
7 all rights to a hearing before the Commission and all other rights otherwise available under Article
8 11 of the Securities Act and Title 14 of the Arizona Administrative Code. RESPONDENTS and
9 SPOUSE acknowledge that this Order to Cease and Desist, Order of Restitution, Order for
10 Administrative Penalties ("Order") constitutes a valid final order of the Commission.

11 2. RESPONDENTS and SPOUSE knowingly and voluntarily waive any right under
12 Article 12 of the Securities Act to judicial review by any court by way of suit, appeal, or
13 extraordinary relief resulting from the entry of this Order.

14 3. RESPONDENTS and SPOUSE acknowledge and agree that this Order is entered
15 into freely and voluntarily and that no promise was made or coercion used to induce such entry.

16 4. RESPONDENTS and SPOUSE acknowledge that they have been represented by an
17 attorney in this matter, RESPONDENTS and SPOUSE have reviewed this Order with their
18 attorney, Scott Theobald of Theobald Law, P.L.C., and understands all terms it contains.
19 RESPONDENTS and SPOUSE acknowledge that their attorney has apprised them of their rights
20 regarding any conflicts of interest arising from dual representation. RESPONDENTS and
21 SPOUSE acknowledge that they have each given their informed consent to such representation.

22 5. RESPONDENTS and SPOUSE neither admit nor deny the Findings of Fact and
23 Conclusions of Law contained in this Order. RESPONDENTS and SPOUSE agree that they shall
24 not contest the validity of the Findings of Fact and Conclusions of Law contained in this Order in
25 any present or future administrative proceeding before the Commission or any other state agency
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1 concerning the denial or issuance of any license or registration required by the state to engage in
2 the practice of any business or profession.

3 6. By consenting to the entry of this Order, RESPONDENTS and SPOUSE agree not
4 to take any action or to make, or permit to be made, any public statement denying, directly or
5 indirectly, any Finding of Fact or Conclusion of Law in this Order or creating the impression that
6 this Order is without factual basis. RESPONDENTS and SPOUSE will undertake steps necessary
7 to assure that all of their agents and employees understand and comply with this agreement.

8 7. While this Order settles this administrative matter between RESPONDENTS and
9 SPOUSE and the Commission, RESPONDENTS and SPOUSE understand that this Order does not
10 preclude the Commission from instituting other administrative or civil proceedings based on
11 violations that are not addressed by this Order.

12 8. RESPONDENTS and SPOUSE understand that this Order does not preclude the
13 Commission from referring this matter to any governmental agency for administrative, civil, or
14 criminal proceedings that may be related to the matters addressed by this Order.

15 9. RESPONDENTS and SPOUSE understand that this Order does not preclude any
16 other agency or officer of the state of Arizona or its subdivisions from instituting administrative,
17 civil, or criminal proceedings that may be related to matters addressed by this Order.

18 10. RESPONDENTS agree that they will not apply to the state of Arizona for
19 registration as a securities dealer or salesman or for licensure as an investment adviser or
20 investment adviser representative until such time as all restitution and penalties under this Order
21 are paid in full.

22 11. RESPONDENTS agree that they will not exercise any control over any entity that
23 offers or sells securities or provides investment advisory services within or from Arizona until
24 such time as all restitution and penalties under this Order are paid in full.

25 12. RESPONDENTS agree that they will not sell any securities within or from Arizona
26 without being properly registered in Arizona as a dealer or salesman, or exempt from such

1 registration; RESPONDENTS will not sell any securities in or from Arizona unless the securities
2 are registered in Arizona or exempt from registration; and RESPONDENTS will not transact
3 business in Arizona as an investment adviser or an investment adviser representative unless
4 properly licensed in Arizona or exempt from licensure.

5 13. RESPONDENTS and SPOUSE agree that they will continue to cooperate with the
6 Securities Division including, but not limited to, providing complete and accurate testimony at any
7 hearing in this matter and cooperating with the state of Arizona in any related investigation or any
8 other matters arising from the activities described in this Order.

9 14. RESPONDENTS and SPOUSE acknowledge that any restitution or penalties
10 imposed by this Order are the joint and several obligations of RESPONDENTS and GL and
11 SPOUSE's marital community.

12 15. RESPONDENTS and SPOUSE consent to the entry of this Order and agree to be
13 fully bound by its terms and conditions.

14 16. RESPONDENTS and SPOUSE acknowledge and understand that if any
15 Respondent fails to comply with the provisions of the order and this consent, the Commission may
16 bring further legal proceedings against the Respondent(s), including application to the superior
17 court for an order of contempt.

18 17. RESPONDENTS and SPOUSE agree that if they fail to comply with the provisions
19 of the Order and this Consent, the Commission may bring further legal proceedings against them,
20 including application to the superior court for an order of contempt.

21 18. RESPONDENTS and SPOUSE understand that default shall render them liable to
22 the Commission for its costs of collection and interest at the maximum legal rate.

23 19. RESPONDENTS and SPOUSE agree and understand that if they fail to make any
24 payment as required in the Order, any outstanding balance shall be in default and shall be
25 immediately due and payable without notice or demand. RESPONDENTS and SPOUSE agree
26

1 and understand that acceptance of any partial or late payment by the Commission is not a waiver
2 of default by Commission.

3 20. GL agrees and represents that at all times relevant: (a) he was a trustee of the
4 TRUST; (b) he conducted business through COSAS as its owner, promoter and manager and in his
5 capacity as a trustee of the Trust; and (c) he is authorized by COSAS to enter this Order on its
6 behalf.

7 COSAS MANAGEMENT GROUP, L.L.C.

8
9 By: *Gene Lines*
10 [The Gene and Suzanne Lines Trust: Co-Trustee
11 Gene Lines]

12 Its: Managing member

13 By: *Suzanne Lines*
14 [The Gene and Suzanne Lines Trust: Co-Trustee
15 Suzanne Lines]

16 Its: Managing member

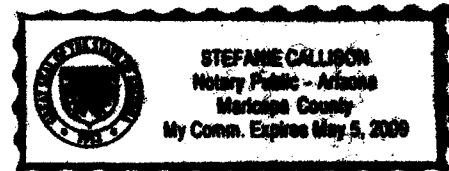
17 STATE OF ARIZONA)
18) ss
19 County of Maricopa)

20 SUBSCRIBED AND SWORN TO BEFORE me this 2nd day of MARCH, 2009.

21 *Stefanie Callison*
22 NOTARY PUBLIC

23 My commission expires:

24 5-5-09



By: Gene Laurell Lines

Gene Laurell Lines

STATE OF ARIZONA)
County of Maricopa) ss

SUBSCRIBED AND SWORN TO BEFORE me this 2nd day of ^{MARCH}~~February~~, 2009.

Stefanie Callison
NOTARY PUBLIC

My commission expires:

5-5-09



By: Suzanne Lines
Suzanne Lines, spouse of Gene Lines

STATE OF ARIZONA)
County of Maricopa) ss

SUBSCRIBED AND SWORN TO BEFORE me this 2nd day of ^{MARCH}~~February~~, 2009.

Stefanie Callison
NOTARY PUBLIC

My commission expires:

5-5-09

